THE BARBER-ELLIS GROUP

Barber-Ellis of Canada, Limited / Envelope manufacturers and fine paper merchants

Annual Report 1974

BARBER-ELLIS OF CANADA, LIMITED

Financial Highlights

	1974	1973	1972	1971	1970	1969	1968	1967
Sales	$69,058,300	$49,787,060	$34,804,290	$30,680,054	$29,043,385	$28,385,297	$26,557,109	$25,240,748
Profit before Income Taxes	$ 6,204,302	$ 3,523,453	$ 1,967,721	$ 1,651,948	$ 1,523,947	$ 1,244,886	$ 1,132,190	$ 1,032,486
Income Taxes	2,927,442	1,649,449	952,180	818,190	832,619	664,566	581,029	506,589
Net Earnings	3,276,860	1,874,004	1,015,541	833,758	691,328	580,320	551,161	525,897
Common Shares Outstanding	$ 463,042	$ 459,662	$ 457,870	$ 455,100	$ 455,000	$ 455,000	$ 455,000*	$ 455,000*
Earnings per Common Share	7.09	4.08	2.22	1.83	1.52	1.27	1.20*	1.15*
Dividend per Common Share	2.10	1.60	0.95	0.70	0.70	0.60	0.60*	0.60*
Common Dividends Paid	972,437	734,242	433,582	318,535	318,500	273,000	273,000	273,000
Current Assets	$22,472,077	$15,420,980	$10,411,765	$ 8,414,583	$ 7,651,554	$ 7,664,717	$ 7,151,524	$ 6,891,445
Land, Buildings & Equipment	$11,261,927	$ 8,904,664	$ 6,322,806	$ 6,010,141	$ 5,820,362	$ 5,626,739	$ 5,264,178	$ 4,987,836
Accumulated Depreciation	5,817,772	4,939,376	4,227,616	3,944,257	3,712,375	3,439,461	3,193,277	3,000,419
Fixed Assets—Net	5,444,155	3,965,288	2,095,190	2,065,884	2,107,987	2,187,278	2,070,901	1,987,417
Total Assets	28,732,299	19,932,518	12,506,955	10,480,467	9,759,541	9,853,700	9,243,324	8,912,303
Current Liabilities	$13,467,215	$ 7,506,784	$ 4,596,686	$ 3,153,919	$ 2,920,941	$ 3,314,528	$ 2,980,272	$ 2,895,212
Long-term Liabilities	$ 4,133,650	$ 3,830,000	$ 557,000	$ 585,000	$ 612,000	$ 640,000	$ 667,000	$ 695,000
Shareholders' Equity	10,853,072	8,511,889	7,353,269	6,741,548	6,226,600	5,899,172	5,596,052	5,322,091
Working Capital	$ 9,004,862	$ 7,914,196	$ 5,815,079	$ 5,260,664	$ 4,730,613	$ 4,350,189	$ 4,171,252	$ 3,996,233

*Adjusted to reflect 10 for 1 stock split in 1969.

Branches and Subsidiaries

Barber-Ellis of Canada, Limited

20 Overlea Boulevard
Toronto, Ontario. M4H 1A7

Branches:

Halifax
Montreal
Toronto
Brantford
Hamilton
Winnipeg
Regina
Calgary
Edmonton
Vancouver

Subsidiaries:

W. V. Dawson Limited

345 Montée de Liesse,
Montreal. Quebec H4T 1P7

Branches:

Montreal
Toronto

Fine Papers (London), Limited

505 Bathurst Street
London, Ontario N6B 1P5

Branches:

London
Hamilton
Windsor

Gage Envelopes Limited

56 Steelcase Road West
Markham, Ontario L3R 1B2

Branches:

Toronto
Montreal
Winnipeg

Munn Envelopes Company Limited

41 Fraser Avenue,
Toronto, Ontario M6K 1Y7

Directors and Officers

Board of Directors

A. H. Lemmon
G. H. Love
D. K. Murphy
K. W. Murphy
A. E. Nelson
V. M. Seabrook. Q.C.
J. G. Westaway
J. W. Westaway

Corporate Officers

James W. Westaway,
Chairman

A. Erwin Nelson,
Vice Chairman

David K. Murphy,
President

James G. Westaway,
Vice President—Finance

H. W. Van Riet Paap,
Secretary Treasurer

G. Albert Chute,
General Manager—Manufacturing

Divisional Officers

Donald R. Ball,
General Manager,
Barber-Ellis, East.

Auldus D. Curran,
Vice President & General Manager,
Fine Papers (London), Limited.

Douglas C. McGillivray,
Vice President & General Manager,
Gage Envelopes Limited.

George V. Stott,
General Manager,
Barber-Ellis, West.

E. W. Thompson,
Vice President & General Manager,
W. V. Dawson Limited.

Transfer Agent & Registrar

National Trust Company, Limited
Toronto, Ont.

Auditors

Touche Ross & Co.
Toronto, Ont.

Solicitors

Seabrook, McElwain & Burk,
Toronto, Ont.

To our Shareholders

The year 1974 should be remembered as a year of change. In the early months of the year, paper was in short supply and as the months progressed, the fine paper mills had an even more difficult time keeping up with the demand until the 4th quarter, when a complete turn-around was experienced and fine paper was again in full supply.
The price of pulp increased during each quarter of 1974 with the end result that the price of converting and printing papers increased several times during the 12 month period. This inflation, along with the strong demand for paper, generated sales of $69,058,000 for your Company, an increase of 39%.
Net earnings for the year 1974, after allowing for all costs of doing business including depreciation of $787,000 and income taxes of $2,927,000, amounted to $3,277,000, an increase of almost 75% compared with the preceding year.
During the year your Company acquired, effective as of June 30th, 1974, all the issued and outstanding common shares of Curnorwill Limited and its wholly owned subsidiary Fine Papers (London), Limited, fine paper merchants in London, Ontario with branches in Hamilton and Windsor.
The results of these operations have been included in the consolidated earnings of your Company since the date of acquisition.
Earnings per common share in 1974 amounted to $7.09 as compared with $4.08 in the preceding year. Four quarterly dividends totalling $1.50 per common share and an extra dividend of 60¢ per common share for a total of $2.10 per share were paid during the year. Total common dividends paid, including 15% tax in respect of Class B shares, amounted to $972,000.
The capital stock of the Company was changed and reclassified as outlined under No. 5 of the notes to the financial statements.
Consolidated assets of your Company as at December 31st, 1974 were $28,732,000, while liabilities amounted to $17,879,000, resulting in a net worth of $10,853,000. Working capital increased by $1,091,000 to $9,005,000.
In keeping with our growing sales we expanded our Toronto warehouse and moved to larger premises in Barber-Ellis Montreal—and Hamilton as well as Gage Envelopes in Montreal.
In order to keep abreast of the ever-increasing need for productivity and efficiency in our plants and to improve sales and service to our customers we spent $1,626,000 on additions and equipment.
For the first time we have also shown the results of your Company on a current replacement cost basis which will be of interest to you. These comparisons may be found in the supplementary financial information section.
The outlook for 1975 seems to indicate a profit squeeze between our selling prices and quickly rising costs. We may look forward to increased sales and profits, although net earnings likely will not advance at anywhere near the same rate as in the preceding year.
In concluding, I would like to thank our many customers and friends for their continued support and confidence in the Barber-Ellis Group. On behalf of the Board of Directors, I would also like to thank all our employees in all parts of Canada, for their loyalty that made 1974 a record year.

D. K. Murphy

D. K. Murphy
President

February 27th, 1975

Auditors' Report

The Shareholders,
Barber-Ellis of Canada, Limited.

We have examined the consolidated balance sheet of Barber-Ellis of Canada, Limited and its subsidiaries as at December 31, 1974 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

Toronto, Ontario,
February 21,1975.

BARBER-ELLIS OF CANADA, LIMITED (Incorporated under the laws of Ontario)

Consolidated Balance Sheet as at December 31, 1974

(with comparative figures for 1973)

ASSETS			1974	1973
CURRENT				
Cash			$ 29,783	$ 8,599
Accounts receivable			12,074,945	9,551,861
Inventories			10,117,804	5,619,488
Prepaid expenses			249,545	241,032
			$22,472,077	$15,420,980
PROPERTY, PLANT AND EQUIPMENT	COST	ACCUMULATED DEPRECIATION		
Land	$ 451,721	$ —		
Buildings and equipment	10,810,206	5,817,772		
	$11,261,927	$ 5,817,772	$ 5,444,155	$ 3,965,288
Unamortized excess of purchase price of subsidiaries over fair value of net assets acquired (Note 2)			$ 816,067	$ 546,250
			$28,732,299	$19,932,518

On behalf of the Board

James W. Mestaway

Director

D.T. Murphy

Director

LIABILITIES	1974	1973
CURRENT		
Bank indebtedness	$ 7,573,983	$ 2,949,324
Accounts payable and accrued liabilities	4,109,189	3,926,162
Income taxes	1,296,693	630,598
Dividends—preference shares	700	700
Current portion of long-term debt	486,650	—
	$13,467,215	$ 7,506,784
Deferred income taxes	$ 278,362	$ 83,845
Long-term debt (Note 3)	4,133,650	3,830,000
	$17,879,227	$11,420,629
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Notes 4 and 5)		
Authorized		
400 7% cumulative redeemable first preference shares, par value $50 each		
339,960 non-voting second preference shares, par value $25 each		
1,500,000 Class A convertible and 1,500,000 Class B convertible common shares without par value		
1,000 common shares without par value		
Issued		
400 first preference shares	$ 20,000	$ 20,000
463,042 Class A and B shares	545,705	507,545
	$ 565,705	$ 527,545
SURPLUS		
Contributed	$ 45,000	$ 45,000
Retained earnings	10,242,367	7,939,344
	$10,853,072	$ 8,511,889
	$28,732,299	$19,932,518

BARBER-ELLIS OF CANADA, LIMITED

Consolidated Statement of Earnings and Retained Earnings
For the year ended December 31, 1974

(with comparative figures for 1973)

	1974	1973
NET SALES	$69,058,300	$49,787,060
COSTS AND EXPENSES		
Cost of products sold	50,389,580	36,960,419
Selling, general and administration	10,705,281	8,283,622
Depreciation and amortization	786,969	612,235
Interest—long-term debt	381,884	247,837
Interest—current debt	590,284	159,494
	$62,853,998	$46,263,607
Earnings before income taxes	$ 6,204,302	$ 3,523,453
Provision for income taxes	2,927,442	1,649,449
NET EARNINGS	$ 3,276,860	$ 1,874,004
Retained earnings, beginning of year	7,939,344	6,800,982
	$11,216,204	$ 8,674,986
DIVIDENDS		
Preference shares	1,400	1,400
Class A and B shares (including 15% tax in respect of Class B shares)	972,437	734,242
RETAINED EARNINGS, END OF YEAR	$10,242,367	$ 7,939,344
EARNINGS PER SHARE		
Basic	$ 7.09	$ 4.08
Fully diluted	6.96	4.01

BARBER-ELLIS OF CANADA, LIMITED

Consolidated Statement of Changes in Financial Position
For the year ended December 31, 1974

(with comparative figures for 1973)

	1974	1973
FINANCIAL RESOURCES WERE PROVIDED BY:		
Net earnings	$ 3,276,860	$ 1,874,004
Items not requiring an outlay of working capital:		
Depreciation and amortization	786,969	612,235
Deferred income taxes	193,267	83,845
	$ 4,257,096	$ 2,570,084
Issue of common shares	$ 38,160	$ 20,258
Issue of 8% promissory notes (Note 2)	818,300	—
Issue of 8¾% debenture	—	1,500,000
Term bank loan	—	1,800,000
	$ 5,113,556	$ 5,890,342
FINANCIAL RESOURCES WERE USED FOR:		
Expenditures for plant and equipment	$ 1,626,078	$ 2,112,818
Payment of dividends (including 15% tax in respect of Class B shares)	973,837	735,642
Acquisition of subsidiary, net of acquired working capital (Note 2)	908,325	915,765
Increase in current portion of long-term debt	486,650	—
Redemption of debentures	28,000	27,000
	$ 4,022,890	$ 3,791,225
Increase in working capital	$ 1,090,666	$ 2,099,117
Working capital, beginning of year	7,914,196	5,815,079
WORKING CAPITAL, END OF YEAR	$ 9,004,862	$ 7,914,196
REPRESENTED BY:		
Current assets	$22,472,077	$15,420,980
Current liabilities	13,467,215	7,506,784
	$ 9,004,862	$ 7,914,196

Notes to Consolidated Financial Statements December 31, 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. All material inter-company balances and transactions have been eliminated.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined under the "first-in, first-out" method.

(c) Property, plant and equipment

Expenditures for additions and major improvements are capitalized while those for maintenance and repairs are expensed as incurred. The costs and accumulated depreciation applicable to assets retired or sold are removed from the respective accounts and gains or losses thereon are credited or charged to income.

Provisions for depreciation are computed generally on the diminishing balance method at the following rates:

Buildings	5%
Machinery and equipment	20%

(d) Intangibles

The excess of the purchase price over the fair value of net assets acquired is being amortized on a straight-line basis over twenty years.

(e) Deferred taxes

Deferred taxes arise primarily from timing differences between financial and income tax reporting of depreciation charges.

2. ACQUISITION

The Company acquired, effective June 30, 1974, 100% of the issued common shares of Curnorwill Limited and its wholly-owned subsidiary, Fine Papers (London), Limited, wholesale paper merchants.

The following net assets were acquired in the transaction which was accounted for as a purchase:

Total assets	$2,404,214
Total liabilities	(990,489)
Excess of purchase price over fair value of net assets acquired	314,575
	$1,728,300

The following consideration was given by the Company:

Cash	$ 910,000
8% promissory notes maturing 1976	818,300
	$1,728,300

The results of operations of Curnorwill Limited and its wholly-owned subsidiary, Fine Papers (London), Limited, have been included in the consolidated statement of earnings since the date of acquisition, June 30, 1974. The excess of purchase price over the fair value of the net assets acquired is being amortized on a straight-line basis over twenty years.

3. LONG-TERM DEBT

A summary of long-term debt is as follows:

	1974	1973
Term bank loan due April 1, 1983	$1,800,000	$1,800,000
5¾% sinking fund debentures due December 15, 1984	502,000	530,000
8½% sinking fund debentures due June 1, 1993	1,500,000	1,500,000
8% promissory notes due October 10, 1976	818,300	—
	$4,620,300	$3,830,000
Less current portion	486,650	—
	$4,133,650	$3,830,000

3. LONG-TERM DEBT (continued)

(a) The term bank loan bears interest at 1% above prime and is repayable in annual payments of $230,000. The payment due in 1975 was paid as at December 31, 1974.

(b) Under the terms of the trust indenture for the 5¾% sinking fund debentures, the Company:

(i) is required to provide a sinking fund for the purchase or redemption of $27,500 principal amount annually;

(ii) has the right to redeem further amounts of principal at premiums varying with the period to maturity; and

(iii) is restricted on the payment of common share dividends when such payments would reduce net current assets below $1,250,000 and equity below $2,500,000.

During the year $28,000 (1973—$27,000) of 5¾% sinking fund debentures were purchased by the Company and redeemed under the terms of the trust indenture. The total amount redeemed to date meets the requirements of the indenture.

(c) Under the terms of the trust indenture for the 8½% sinking fund debentures, the Company:

(i) is required to make sinking fund payment of $50,000 to the Trustee on June 1 each year commencing in 1975;

(ii) at its option, may redeem further amounts of principal at premiums varying with the period to maturity; and

(iii) is restricted in paying common share dividends when such dividends would reduce the consolidated equity of the Company and its subsidiaries below $6,000,000.

(d) The 8% promissory notes are due in two equal annual instalments on October 10, 1975 and 1976.

4. STOCK OPTIONS

Under the Employees' Stock Option Plan 14,708 shares are reserved for issuance to key employees of the Company and its subsidiaries. As at December 31, 1974 options have been granted on 10,408 of these shares and are exercisable as follows:

	Number of Shares	Option Price Per Share
Up to April 22, 1975	5,280	$11.25
Up to July 28, 1976	878	12.60
Up to June 28, 1977	1,000	18.00
Up to December 19, 1978	3,250	28.80
	10,408	

The options granted may be taken up at the rate of 20% maximum per annum on a cumulative basis.

During the year options were exercised on 3,380 shares for a total consideration of $38,160.

5. CAPITAL STOCK

The share capital was changed, as approved by the shareholders on October 31, 1974 and confirmed by articles of amendment, to reclassify the following previously authorized shares:

FROM	TO
(a) 1,500,000 common shares without par value	1,500,000 Class A convertible common shares without par value 1,500,000 Class B convertible common shares without par value 1,000 common shares without par value
(b) 400,000 non-voting second preference shares with a par value of $25 each	339,960 non-voting second preference shares with a par value of $25 each

Class A and B shares are inter-convertible on a share for share basis and the rights of each class are identical to the previous common shares. Both classes of shares rank equally as to dividends but the Directors may elect to declare and pay a dividend on the Class B shares first out of 1971 tax-paid undistributed surplus on hand and then out of 1971 capital surplus on hand (as those expressions

Notes to Consolidated Financial Statements December 31, 1974 (continued)

5. CAPITAL STOCK (continued)

are defined in the Income Tax Act of Canada) provided that a cash dividend is declared and paid on the Class A shares in an amount equal to the sum of the cash dividend on the Class B shares plus the tax paid to create the tax paid undistributed surplus.

During the year 97,745 Class B shares were issued as a result of the aforementioned conversion right.

Changes in the issued share capital during the year were as follows:

	CONVERTIBLE CLASS A	COMMON CLASS B	COMMON
Shares issued and outstanding December 31, 1973			459,662
Shares issued during year (Note 4)			3,380
Common shares reclassified as Class A	463,042		(463,042)
Class A shares converted into Class B	(97,745)	97,745	
Shares issued and outstanding December 31, 1974	365,297	97,745	Nil

6. LEASE COMMITMENTS

Long-term leases in effect at December 31, 1974 expire in varying periods from two to nineteen years and require minimum annual rental payments of approximately $389,000.

7. PENSION PLANS

As a result of amendments during 1973 to the pension plans which cover the majority of the employees of the Company and its subsidiaries, the unfunded past service benefits as at December 31, 1974 amounted to approximately $1,218,000 (1973—$1,360,000). This amount will be paid and charged to operations over the ensuing fourteen years.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration of directors and senior officers (as defined under The Business Corporations Act—Ontario) was $445,584 (1973—$288,181).

9. COMPARATIVE FIGURES

The 1973 comparative figures have been reclassified to conform to the 1974 presentation.

THE BARBER-ELLIS GROUP

Barber-Ellis of Canada, Limited / Envelope manufacturers and fine paper merchants

Supplementary Financial Information

Current Replacement Cost Financial Statements

Inflation, and rapid price changes, have raised questions about the usefulness of traditional accounting reports. Therefore, the Board of Directors of Barber-Ellis, in addition to the historical accounts, is presenting a Balance Sheet and Statement of Earnings on a current replacement cost basis. This presentation brings all costs and asset values to a common point in time (in this case, December 31, 1974) rather than mixing asset values of various dates, in some cases many years ago, with those of recent months.

The current replacement cost statements relate the current costs of Barber-Ellis' production and distribution capability with the current revenues from those capacities. They also isolate price-change 'profits' from the manufacturing and trading 'profits'. The 'profits' which result from price-changes are included with and taxed on historical accounting statements; in fact, these 'profits' are needed to maintain the company's current operating capacity by replenishing product inventories at higher prices and replacing plant and machinery as it wears out, at higher current prices. The taxes the company pays on these price-change 'profits' are in effect taxes on the shareholders' invested capital.

It is generally conceded that inflation is producing considerable distortion replacement cost statements identify this distortion.

It is significant that in the process one can see that in the case of Barber-Ellis:

1. 21% of the company's 1974 pretax earnings on an historical cost basis relate to price-change 'profits', which are related to inflation and are illusory by nature.

2. The company is being taxed very heavily. The effective income tax rate is 60% of corporate earnings after price-change 'profits' are eliminated.

3. The company's performance, even after eliminating price-change 'profits', is improving.

4. The company's dividend rate, while apparently 30% of historical earnings, is, in fact, 49% of the restated earnings.

If our economy is to function effectively, it is essential that management, investors and governments clearly understand the changed financial conditions that inflation creates. For managers and investors, it is to understand and avoid decisions based on the illusory profits created by historical costs; for governments it is to stop taxation at levels which now impair the capital of business and discourage investment in Canadian enterprise.

It is hoped that these current replacement cost statements will assist the management, the shareholders, investors and others in Canada, in a greater understanding of the effects of inflation on the capital invested in a business and the income it earns.

BARBER-ELLIS OF CANADA, LIMITED

Report on Supplementary Financial Statements

To the Shareholders,
Barber-Ellis of Canada, Limited.

In conjunction with our examination of and report on the financial statements of Barber-Ellis of Canada, Limited for 1974 we have also examined the accompanying supplementary financial statements which have been prepared on a current replacement cost basis.

Uniform criteria for the preparation and presentation of such supplementary financial information have not yet been established and accordingly, acceptable alternatives are available as to their nature and content. In our opinion, however, the accounting basis described in the notes to the supplementary financial statements has been applied as stated and is appropriate in these circumstances.

Touche Ross & Co.
Chartered Accountants.

Toronto, Ontario
February 21, 1975

BARBER-ELLIS OF CANADA, LIMITED

Current Replacement Cost Balance Sheet
As at December 31, 1974

(with comparative historical cost figures)

ASSETS

	CURRENT REPLACEMENT COST (NOTE 1)	HISTORICAL COST (NOTE 3)
CURRENT		
Cash	$ 29,783	$ 29,783
Accounts receivable	12,074,945	12,074,945
Inventories	10,366,804	10,117,804
Prepaid expenses	249,545	249,545
	$22,721,077	$22,472,077
Property, plant and equipment	$15,164,198	$11,261,927
Accumulated depreciation	(8,074,486)	(5,817,772)
Unamortized excess of purchase price of subsidiaries over fair value of net assets acquired	—	816,067
	$29,810,789	$28,732,299

LIABILITIES

	CURRENT REPLACEMENT COST (NOTE 1)	HISTORICAL COST (NOTE 3)
CURRENT		
Bank indebtedness	$ 7,573,983	$ 7,573,983
Accounts payable and accrued liabilities	4,109,189	4,109,189
Income taxes	1,296,693	1,296,693
Dividends—preference shares	700	700
Current portion of long-term debt	486,650	486,650
	$13,467,215	$13,467,215
Deferred income taxes	$ 278,362	$ 278,362
Long-term debt (Note 1)	4,133,650	4,133,650
	$17,879,227	$17,879,227

SHAREHOLDERS' EQUITY

CAPITAL STOCK	$ 565,705	$ 565,705
Contributed surplus	45,000	45,000
Retained earnings	7,001,653	10,242,367
Revaluation surplus	4,319,204	—
	$29,810,789	$28,732,299

BARBER-ELLIS OF CANADA, LIMITED

Current Replacement Cost Statement of Earnings and Retained Earnings
For the year ended December 31, 1974

(with comparative historical cost figures)

	CURRENT REPLACEMENT COST (NOTE 2)	HISTORICAL COST (NOTE 3)
NET SALES	$69,058,300	$69,058,300
COSTS AND EXPENSES		
Cost of products sold	$51,373,580	$50,389,580
Selling, general and administration	10,705,281	10,705,281
Depreciation and amortization	1,095,567	786,969
Interest—long-term debt	381,884	381,884
Interest—current	590,284	590,284
	$64,146,596	$62,853,998
Earnings before income taxes	$ 4,911,704	$ 6,204,302
Provision for income taxes	2,927,442	2,927,442
NET EARNINGS	$ 1,984,262	$ 3,276,860
Retained earnings, beginning of year	7,939,344	7,939,344
	$ 9,923,606	$11,216,204
Adjustment of prior years' depreciation on current replacement cost of plant and equipment	$ 1,948,116	—
Dividends	973,837	$ 973,837
RETAINED EARNINGS, END OF YEAR	$ 7,001,653	$10,242,367
EARNINGS PER SHARE		
Basic	$ 4.30	$ 7.09
Fully diluted	4.22	6.96

Statement of Revaluation Surplus
For the year ended December 31, 1974

Revaluation of physical assets to reflect current replacement cost as at December 31, 1974	
Inventories	$ 249,000
Property, plant and equipment	3,902,271
Excess of purchase price over fair value of assets acquired	(816,067)
Revaluation of cost of products sold during the year ended December 31, 1974	
Portion of 1974 earnings determined on historical cost basis which are required to replace inventory sold at the current cost in effect at the date of sale	984,000
Revaluation surplus December 31,1974	$ 4,319,204

Notes to Current Replacement Cost Financial Statements December 31, 1974

1. Current replacement cost accounting

The essence of current replacement cost accounting is that it gives recognition to maintaining the invested capital of the business and to the current costs of earning a satisfactory return. Since the company is viewed as a 'going concern', income is not considered to have been earned without first providing for the replenishment of capital consumed in the operations. The company maintains its productive capability by being able to replace its plant and equipment as it is used and its inventories as they are sold. The current replacement costs of inventories and of property, plant and equipment are shown on the balance sheet and earnings are determined by matching current costs with current revenues. Adjustments of the historical cost of physical assets to their current replacement cost are considered as restatements of shareholders' equity and are shown on the balance sheet under revaluation surplus.

Since 1974 is the first year the company has prepared current replacement cost financial statements, comparative figures for 1973 are not available.

The current replacement cost financial statements do not represent the current value of the company as a whole because the human resources and the intangible assets such as the excess of purchase price of subsidiaries over fair value of net assets acquired and the goodwill have not been included. The current replacement cost of assets is not necessarily their net realizable value should they be sold.

The principles of valuation are:

(a) Property, plant and equipment

During 1973 and 1974 land and buildings have been independently appraised by quantity surveyors of The Canadian Institute of Quantity Surveyors or by accredited appraisers of The Appraisal Institute of Canada. The basis of valuation is the current replacement cost of facilities with similar productive capacities. Where appraisals for buildings were completed at dates other than at December 31, 1974, the appraised values were adjusted by the non-residential construction price index developed by Statistics Canada.

Machinery and equipment are valued at their current replacement costs which are determined from recent suppliers' prices and estimates made by an equipment supplier. The machinery and equipment are of a specialized nature and their current replacement costs do not necessarily represent the amounts for which the assets could be sold.

(b) Accumulated depreciation

The accumulated depreciation for plant and equipment has been adjusted by $1,948,116 to reflect that portion of the current replacement cost of the assets which would have been charged to earnings in prior years.

(c) Cash, accounts receivable and prepaid expenses

These assets are shown at historical cost which is also their current value to the company.

(d) Inventories

Inventories are valued at the lower of current replacement cost and net realizable value. Replacement costs for inventories are based on current prices and labour costs.

(e) Current and long-term liabilities

These liabilities are shown at their historical amounts. The difference between current and stated interest rates on long-term debt would have only a minimal effect on earnings.

2. Principles of calculating earnings

Net sales represent the net proceeds from products sold to customers.

Cost of products sold is calculated on the basis of the current replacement cost of the item sold on the date of sale.

Depreciation of buildings and equipment is computed on the diminishing balance method on current replacement costs at the following rates:

Buildings	5%
Plant and equipment	20%

3. Historical cost financial statements

The column of historical costs should be read in conjunction with the notes to the historical cost financial statements.